

Message Text

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PAGE 01 BRUSSE 08339 01 OF 02 191818Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-07 FRB-03 INR-07 NSAE-00 EPG-02 SP-02 STR-04
TRSE-00 LAB-04 SIL-01 OMB-01 AGRE-00 PA-01 PRS-01
USIA-06 /071 W
-----118007 191833Z /43

R 191808Z JUL 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 0944
INFO ALL EC CAPITALS
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 01 OF 02 BRUSSELS 08339

USEEC

E.O. 11652: N/A
TAGS: EEC, EGEN, EIND, ETRD
SUBJ: EC COMMISSION EFFORT TO REDUCE OVERCAPACITY
IN SYNTHETIC FIBERS INDUSTRY

REF: EC BRUSSELS A-130 (NOTAL)

1. IN RESPONSE TO THE DETERIORATING SITUATION IN THE
SYNTHETIC FIBERS INDUSTRY, THE EC COMMISSION WILL RE-
FRAIN FROM GRANTING EC AID TO THE INDUSTRY AND WILL
REQUEST A TWO YEAR BAN ON ALL STATE AID FOR THE IN-
STALLATION OF ADDITIONAL PRODUCTION CAPACITY. AT THE
SAME TIME THE COMMISSION WILL ORGANIZE MEETINGS WITH
MANUFACTURERS AND UNIONS TO ASSESS THE SITUATION AND
CONSIDER POSSIBLE ADDITIONAL MEASURES INCLUDING TRADE
RESTRICTIONS.

2. THE SITUATION IN THE INDUSTRY IS CHARACTERIZED BY
THE FOLLOWING ELEMENTS:(A)REDUCED DEMAND-CONSUMPTION
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PAGE 02 BRUSSE 08339 01 OF 02 191818Z

GREW FROM 500,000 TONS IN 1965 TO OVER 2 MILLION TONS
IN 1973 BEFORE DROPPING BACK AND THEN REACHING, BUT
STAGNATING AT, THE 1973 LEVEL SINCE 1976.

(B) INCREASING IMPORTS - COMMUNITY TEXTILE IMPORTS ARE
EXPANDING, THEREBY REDUCING THE EC MARKET FOR SYNTHETIC
FIBERS AND EXPORT MARKETS ARE GRADUALLY NARROWING BECAUSE

OF NEW PRODUCTION CAPACITY IN THIRD COUNTRIES.
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B. SURPLUS CAPACITY - WITH THE ASSISTANCE OF PUBLIC FUNDS
CAPACITY INSTALLATIONS HAVE GROWN BASED ON ILLUSORY 1973
PROSPECTS AND OFTEN IN DIRECT COMPETITION WITH PROJECTS
IN OTHER EC MEMBER STATES. AT THE SAME TIME GOVERNMENTS
HAVE BEEN LOATHE TO LET NON-COMPETITIVE PLANTS CLOSE DOWN.
THE CAPACITY UTILIZATION RATE WAS ONLY 68 PERCENT IN 1976
FOR THE COMMUNITY AS A WHOLE AND FOR INDIVIDUAL MEMBER
STATES AS FOLLOWS: FRG, 64 PCT; BENELUX, 68.1 PCT; FRANCE
69.2 PCT; ITALY, 71.1 PCT; UK, 72.4 PCT; AND IRELAND, 58.1
PCT.

C. PRFT SQUEEZE - DESPITE REDUCED CAPACITY UTILIZATION,
CONTINUED OVERSUPPLY HAS DRIVEN DOWN PRICES WHILE IN-
CREASED COSTS OF RAW MATERIALS, ENERGY, AND LABOR HAVE
SQUEEZED PROFITS. PRODUCERS ESTIMATE PRODUCTION LOSSES
AT ABOUT ONE BILLION DOLLARS IN 1975 AND \$600 MILLION IN
1976.

D. DECREASED EMPLOYMENT - THE NUMBER OF EMPLOYED WORKERS
IN THE SECTOR HAS DROPPED CONSTANTLY SINCE 1973.

3. ALTHOUGH ITS POWERS OF INDUSTRIAL RESTRUCTURING ARE
LIMITED, THE COMMISSION PROPOSES TO USE TREATY POWERS
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PAGE 03 BRUSSE 08339 01 OF 02 191818Z

DEALING WITH REGIONAL AND STATE AIDS TO PREVENT FURTHER
DETERIORATION OF THE SITUATION. FIRST THE COMMISSION
WILL REFUSE TO GRANT COMMUNITY AIDS (FROM THE REGIONAL
OR OTHER FUNDS) TO THE SECTOR AND WILL GIVE A NEGATIVE
OPINION ON ANY EUROPEAN INVESTMENT BANK LOAN PROJECTS.
SECOND THE COMMISSION WILL FORBID NATIONAL AIDS WHICH
WOULD CREATE ADDITIONAL PRODUCTION CAPACITY. EXCEPTIONS
MAY BE MADE FOR ECONOMICALLY BACKWARD REGIONS AND FOR
MODERNIZING INVESTMENTS WHICH ARE ACCOMPANIED BY SHUT-
DOWN OF AN EQUAL AMOUNT OF OUTDATED PRODUCTION CAPACITY.

4. THIS BAN ON STATE AIDS IS IN THE FORM OF A REQUEST TO
MEMBER GOVERNMENTS BUT, UNDER THE EEC TREATY, THE COM-
MISSION MUST APPROVE IN ADVANCE ALL STATE AID SCHEMES
AND CAN COMPEL GOVERNMENTS TO ABOLISH OR AMEND THOSE
JUDGED INCOMPATIBLE WITH THE COMMON MARKET. RECENTLY
THE COMMISSION HAS SHOWN AN INCREASED WILLINGNESS TO
DISAPPROVE OF SCHEMES WHICH WOULD CREATE NEW CAPACITY
IN ALREADY DEPRESSED SECTORS (REF).

5. ACCORDING TO COMMISSION OFFICIALS THE BAN IS AIMED
PRIMARILY AT ITALY WHICH IS SUPPORTING MAJOR EXPANSIONS

IN SARDINIA, AND IRELAND WHICH APPEARS DETERMINED TO
MAINTAIN A SYNTHETIC FIBER INDUSTRY AT GREAT PUBLIC
EXPENSE.

6. ALTHOUGH THE FAILING FORTUNES OF THE SYNTHETIC FIBER
INDUSTRY ARE DIRECTLY LINKED TO THE SHARP RISE IN IMPORTS
OF TEXTILES AND CLOTHING AND TO GROWING THIRD-COUNTRY
COMPETITION IN EXPORT MARKETS, THE COMMISSION DOES NOT
CONSIDER DIRECT IMPORTS OF SYNTHETIC FIBERS AN URGENT
PROBLEM. THE IMPORT PROBLEM IS MOSTLY A QUESTION OF
DOWNSTREAM PENETRATION FROM THE LDC TEXTILE MANUFACTURERS
AND THE EC HAS ALREADY TAKEN SOME STEPS TO LIMIT COMPETI-

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PAGE 01 BRUSSE 08339 02 OF 02 191817Z
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INFO ALL EC CAPITALS
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 02 OF 02 BRUSSELS 08339

TION IN TEXTILES. NEVERTHELESS THE COMMISSION IS PREPARED
TO INVOKE SAFEGUARD CLAUSES IF THE SITUATION WORSENS AND
OFFICIALS TOLD MISSION OFFICER THEY ARE ALREADY CONSIDER-
ING MONITORING IMPORT STATISTICS. HINTON

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